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THE PROBLEMS OF TRADE READJUSTMENT

By HERBERT HOOVER

Below are views embodied in an address delivered in July by Secretary Hoover, before the National Shoe and Leather Exposition in Boston. They will be illuminating to those who are trying to see the world whole, and not in sections at each other's throats, for Mr. Hoover, in pointing the way to prosperity for this country, emphasizes how it, the richest of all nations, depends for its prosperity largely on the prosperity of less fortunate nations. The international viewpoint is needed even in so-called merciless trade.—THE EDITOR.

THERE is a feeling of some uneasiness and even of pessimism regarding the future of our foreign trade—a feeling in which I do not participate. Our exports and imports during the last few months have dropped nearly 50 per cent in value from the high-water mark of a year ago. Some of this decrease is due to the fall in prices relatively more than volume, some of it is due to the temporary world depression, and some of it lies deeper.

In these times of troubled minds, we find much conflict of opinion as to the situation and its remedies. Some extreme groups insist that inasmuch as our exports comprise but 10 per cent of our total production, therefore our foreign trade bears only this ratio to our economic life, and that consequently our true course is to forget it and to devote ourselves to healing our internal economic wounds. Other extreme groups consider that for our internal situation the only remedy is restoration of our export trade, and they would undertake desperate measures to accomplish it. In either case we must not allow the present extreme industrial depression to obscure our view. We have passed through several depressions since the Civil War, and we have already turned the corner of this one.

The importance of our foreign trade requires but little defense. I may say in passing that our whole standard of living greatly depends upon our imports, and that our exports are the great balance wheel for our production. Exports are vital to the stabilization of our industries, of price levels, of wages, and of employment. While our exports do cover but a small per cent of our total production, on the other hand they do comprise a large percentage of the production of certain industries. For instance, we generally export 20 per cent of our wheat, 60 per cent of our cotton, 75 per cent of our copper, not to mention others. Unless we find a market for the surplus production of our great industries, we shall continue to keep some 25,000,000 of our people in reduced buying power. We might even drive them into poverty during the many years that would be required to shift the whole basis of our internal production. Nor does a nation become rich by its exports alone—but by its trade.

While many of the causes of the present depression lie within our own borders, yet there may be no recovery from these hard times for many years to come if we neglect our economic relations abroad. Even if we lower our vision of civilization in this crisis solely to our own selfish economic interest, we are yet mightily concerned in the recuperation of the entire world. The hard times that knock at every cottage door today come from Eu-

rope. No tariffs, no embargoes, no navies, no armies can ever defend us from these invasions. Our sole defense is the prosperity of our neighbors and our own commercial skill. The recovery of our foreign trade can march only in company with the welfare and prosperity of our customers.

When we analyze the present foreign trade situation, we find tremendous shifts in economic currents since 1914. Indeed, we find great changes still in progress. If we would guide our policies of production and of trade aright, we must keep these great changes constantly in mind. These profound alterations naturally fall into two divisions: The shift in the world's production and markets and the shift in the world's financial relations. They bear upon each other, and they affect our three primary groups of food, raw material, and manufactured goods differently.

The United States.—There have been great changes in our own economic situation. We have not only shifted from a debtor to a creditor nation; our capacity for surplus production in food and manufactures has grown enormously during the war until we have taken front rank of the world in foreign trade.

The direction of our trade has shifted greatly. During the last year about one-half of our whole foreign trade was with Europe, but of our exports to them 80 per cent was foodstuffs and raw material, while of our exports to States outside of Europe about 75 per cent was manufactured goods. Europe in turn is our serious competitor in the marketing of our manufactured goods to the rest of the world. We have enormously increased our imports of tropical and other commodities that we do not produce.

The Noncombatant Countries.—Since the Great War began, the world outside the fighting States of Europe has gained mightily in wealth, in standards of living, and in consuming power. Even omitting the United States, it has gained something like 40,000,000 in population. The countries not directly affected by the war are, indeed, suffering from the general depression, but this depression with them is only the aftermath of the malevolent forces born of the past war booms. They have none of the deep economic wounds of the fighting States, and they will be quick to recover. During the war the productive capacity of these States, except possibly Japan, had no unusual increase because of their isolation through shortage of shipping.

Russia.—One of the economic shifts that affects the whole world profoundly is from Russia. Russia bore much the same relation to western Europe before the war that the Mississippi Valley bears to our Northeastern States. Russia was one of the great food bases of the manufacturing countries of western Europe, exchanging food for their fabricated products. These manufactured goods in turn were to some degree produced from our raw materials. Even at best it will be many years before Russia will have recovered. We are today the only great source of enlarged food production. Europe must and will draw from us a great proportion of food supplies that she formerly drew from Russia. I see no basic reason why we should not continue to export approximately the same large volume of foodstuffs that we have shipped abroad during the past 12 months.

This item alone at even present prices would be triple our pre-war food exports and would represent the equal of more than 60 per cent of our whole pre-war export trade.

Germany.—Another great but uncertain shift in world forces will arise out of Germany. The reparation payments must have a profound effect upon the whole economy of the world. Germany is to pay outside her borders to the Allies \$500,000,000, plus 26 per cent export duty, or, say, a minimum of about \$750,000,000 per annum. Germany is left without much gold, foreign property, or foreign business earnings of consequence; therefore these payments must be made mostly by the sale of manufactured goods outside her borders. But, beyond the reparation payments, she must also sell goods abroad in the amounts necessary to buy her imports of food and raw materials. Any calculation based on the pre-war trade of Germany implies an enormous increase—perhaps more than doubling—of her pre-war exports. In view of the export duty and other payments, she must produce these goods for about one-half our production cost in order to take our markets. Such an increase in exports must be manufactured goods, and until the world consumption grows, these must be marketed in displacement of the goods of other industrial nations. We shall certainly feel the effects of this flow of goods that must be produced if she is to make reparation payments. On the other hand, Germany must take more raw materials from us for this purpose. In any event, the crowding in the market of German exports will affect her immediate neighbors more than ourselves, for 80 per cent of her market, pre-war as well as in the future, must lie in Europe itself.

Other Changes Among Combatant States of Europe.—The economic changes in the other combatant States in Europe obviously affect us also. The economic wounds given to them all by the war and peace will be long in healing. The sacrifice of skilled labor, of brains, and of property will require a generation to cure. The hates of many newly liberated States must cool slowly, and their many new borders check the free flow of commerce. Many of these States possess masses of people who have suffered from exploitation and tyranny for generations. Their extreme reactions of Bolshevism and socialism and nationalization are slowly dying out. Many governments have been unable to raise sufficient taxes to meet expenditures, and the ceaseless printing of currency carries destructive inflation. All of them except the enemy States bear the burden of greater military establishments than even before the World War. All this must accumulate to decrease their productive power and to lower their standards of living.

In balance against this loss of productive power, their people over great sections are now coming to a full realization that they must work harder than ever before and that they must export commodities for all that is in them, in order that they may make exchanges for the bare margin of life. They will some of them receive payments from Germany in relief of their tax burdens. They are mobilizing the skill and the intelligence of their people to their economic salvation with the same diligence that they were mobilized in war. The great manufacturing States are straining every device of

science and thought to the improvement of their industrial processes, to the simplification of products, to the elimination of waste, that they may make every reduction in production costs. In reinforcement of their marketing machinery, many of the governments are stimulating the consolidation of banks and of manufacturing concerns. Governmental and government-encouraged combinations are being created to control exports and imports to exploit foreign markets. They are seeking special concessions for development and trade throughout the world. Altogether these policies comprise a militancy in commercial expansion that compared with Elizabethan England.

Any improvement in European production of manufactured goods will favorably affect our market for those raw materials, such as cotton and copper, where we possess the final supplies. In considering the demands for such raw materials we must remember that the manufacturing countries of western Europe have lost for a long time to come any great markets in Russia and Turkey; the population of Europe as a whole has not the consuming capacity for manufactured goods that it had before the war, and therefore we must expect a less than pre-war consumption in the confines of Europe for their remanufacture of our raw materials. But, on the other hand, they will find after this depression is passed that the markets of the rest of the world are larger than before the war. I am confident they will gradually return to pre-war demand for our cotton, copper, etc. Fortunately our producers have realized this temporary situation and have vigorously reduced their production, so that they should eventually realize better prices than at present.

It seems to me that it was inevitable that the balance of the forces at work in European countries would improve their ability in competitive manufactured goods. Their production costs were bound to be low, both by better organized industry and by lowered standards of living. Some of them are today, through government subsidies, artificially low and will undoubtedly increase. If we analyze the effect of these forces on the market for our manufactured goods, either in Europe or in our much larger market outside of Europe, we quickly find two directions in which we occupy a position of some security. The first is in those exports of lower production costs, which are the result of great repetitive production, which has its firm root in our enormous consumption. The second is in that large number of special manufactures in which the inventive genius and skill of our people have been developed beyond any country in the world. Your own industry of shoes and shoe findings is typical of these two characteristics. I believe we will recover and can hold our share of the market for these products after the present world depression.

As to our manufactures containing a large element of labor cost, in which we do not enjoy special advantages, we must look out and take measures of our own. We can no doubt devise tariff measures that will protect our domestic market. But if we are to hold to our foreign markets in this vast group of our manufactures, and thus to keep our people employed, we have several things to attend to. Fundamentally, we must get our production costs down. That lies only along the road of in-

creased efficiency in our whole industrial machine. It means a willingness of our working people to put forth every effort that is in them consistent with health, proper family life, and good citizenship. The surest road to a continued high wage and the surest safeguard against unemployment is to remove every restriction on effort. This must extend from our mines to the railways, to the factories, to the wharf, and to the ship. It means smaller margins of profit. It means that ultimately we must have much lower transportation rates. It means we must have better organized marketing machinery abroad under Americans themselves. It means the establishment of adequate short-time credit machinery and much more care in foreign-credit risks than our merchants have shown in the last 12 months.

It means elimination of the great wastes in industry. For instance, in the Atlantic seaboard area alone by the development of these great water powers and through economies by electrification generally we could probably save 30,000,000 tons of coal per annum if we had the courage to go at it. It means the government must remove as quickly as possible those unnecessary domestic burdens upon commerce to which the government is a party by the reorganization of our tax system, the settlement of the tariff question, the reduction in government expenditure through the reorganization of the Federal Government, through reduction of armament and through reduction of Shipping Board losses, and by the settlement by the government of the outstanding claims of our railways. It means we must cease trying to drive American shipowners off the sea with tax-paid shipping losses. We must carefully determine what particular trade routes we will maintain in development of our commerce over a period of years and let our merchants know them. It means the government must provide such information to commerce and industry, both at home and from abroad, as will enlarge its judgment. It means we must extend scientific research into the problems of waste, the perfection of processes, the simplification of methods that are beyond the ability of one manufacturer acting alone, and we must co-operate with industry to perfect these things. I am confident we can hold our markets and our higher standards of living and of wage if we will all put our backs to it.

Overriding all these questions of production and markets is the one of credits. Our whole financial relation to the rest of the world has greatly shifted. From a nation owing some \$5,000,000,000 to the rest of the world for moneys borrowed, the war has reversed our position so that the world, principally Europe, owes us today from thirteen to fifteen billions of dollars, of which about ten billions is due our government. Before the war we had to export a surplus over our imports, and beyond this had to contribute great sums through remittances of immigrants, tourists, shipping, etc., to pay interest upon our debts.

The reason for the piling up of this vast debt is, of course, that we have not only loaned money to the Allies, but have also since the war vastly increased the surplus of our exports, and the movement still continues to accumulate in our favor. Unless we would cease a large part of our war-increased productivity, with all the resulting unemployment and losses of such a cessation, we

must continue for some time to export in excess of our imports. Eventually the increase in our imports of tropical supplies, minerals, and commodities that we do not ourselves produce, together with the spending of tourists and the investment of surplus capital abroad, etc., should overtake our export balance and establish a proper equilibrium. In the meantime if we would maintain our economic position we must continue to give credits to buyers of our goods, and if we should demand interest or principal on our established loans we would nullify any benefits of such credits. I may repeat that if today we stop giving more credits and demand payment of interest on debts due our government, our exports will further decline, and the decline will find its interpretation in more unemployment among our own people and more displacement of our industries.

The natural effect of our continued surplus of exports (although we have as yet made no demand for payment of interest on the government debt) is that our dollar is at a premium over even the most stable currencies in the world. Thus the cost of producing our commodities is higher than in any other country. This does not so materially affect the export of those commodities of which we hold a final supply, such as the food supplies and our raw materials, or those articles in the manufacture of which we have unique ability. It does, however, partly blockade our exports of manufactured goods in which we directly compete with Europe. Exchange itself is not the cause, but the effect. It bears the same relation to trade that the barometer does to the weather. It is but an indication of the movement of commodities and credit. Our high barometer means we need more credits outward or, alternatively, we must send less goods out or take more goods in.

I may say in passing that I am confident that our debtors can eventually carry with ease the debt due to us, provided they have the time necessary for the healing of their economic wounds; that they succeed in the reorganization of their fiscal policies so as to balance their government expenditure; and, above all, that they secure disarmament and continued peace. Before the war the world carried a debt to a single European nation of twice the size of our foreign claims without knowing it, and with the renewed growth of the world's commerce and wealth our debt will be no burden. Our problem is the difficulties of our debtors during the few years until these blessings are attained.

All of my rightful and optimistic view that we will maintain the flow of our goods is based upon the assumption that we can wisely manage these credit problems. There is a general agreement that we must extend credit if we would market our surplus and upbuild our customers during these next few years of readjustment, but as to the methods there are many minds. There are those who would directly try to stabilize exchange back to parity; those who would create securities jointly guaranteed by the principal nations, either through international banks of issue, bonds, or currency; those who would extend credits directly or indirectly from the United States Treasury to buyers of goods in order to stimulate exports; and also those who have confidence that the processes of business will find their own way out.

Attempts to bring exchange to parity or to create international securities of any kind are open to the objection that they involve an element of inflation and that they practically open the gates of credit from the United States without regard to risk, to how its purpose affects us, or whether it really benefits the borrower. Loans from our government direct to foreign governments or foreign merchants have a hundred objections and disagreeable entanglements which we learned well enough during the war. In all this maze of difficulty and the unsettlement over credits and debts, I would sum up that wisdom consists in knowing what to do next rather than in debates upon perfection.

As necessary as the continued establishment of foreign credits is, if we are to maintain our large volume of export trade, we should not overestimate the amount needed for legitimate trade, for refinance, and for reconstruction purposes. The amount is not so great as popularly supposed and will annually decline. I believe all trading States of consequence in the world can even now finance their imports of food supplies. The stronger of them can finance their imports of raw materials. We are, indeed, importing very much larger quantities of tropical produce than before the war, and our own consumption of these commodities will continue to grow. The margin of credits needed beyond our imports in order to keep commerce alive for the present are, first, comparatively short-term amounts to cover part of our exports of raw materials and the distribution period of our manufactured goods; and, second, constant refinance of debts or interest already owed to us.

In summary, on the production and marketing side of our commerce, we can say that our food exports should remain on a greatly enlarged scale; that the demand for our raw materials should slowly increase toward pre-war amounts; that in respect to our manufactures we should be able to hold special fields of repetitive production and ingenuity; that we will need to make a fight to hold the markets for manufactured goods where we come more directly into competition with the European manufacturer, but that we can do it if we will work and apply our brains to it. On the financial side of our situation I do not believe our world credit situation is at all so unsurmountable or that it requires extraordinary solutions.

I may repeat that we need to realize above all things that, even if we lower our vision of civilization in this crisis solely to that of our own selfish economic interest, we are mightily concerned in the recuperation of the entire world. There is an economic interdependence in the world that recognizes no national boundaries. The greatest jeopardy to the standard of living of our people is the lowered standards of Europe. Now that we have become a great creditor nation, we must learn that this great debt must be wisely directed, so that we do not stifle both our own growth and the growth of others.

There are, indeed, many complexities arising out of our great expansion of productive power and our suddenly born creditor position. I do not need to say that we are confronted with a hundred difficulties, that we must be alert to steer our commercial policies against the winds of the world in an economic storm. We are suffering greatly in this immediate world-wide indus-

trial depression. This depression is partly due to the war; it is partly due to our post-war boom, with its speculation, its extravagance, and its slackening of efficiency. The government can help recovery by removing the obstructions to commerce and industry. But, when all is done, the real cure for all depression is courage and applied intelligence and the return to primary virtues of hard, conscientious toil, and economy in living. On every side there is evidence that the vast majority of our whole nation is making again an effort in those directions equaled only by that of 1918, and the day, some months ago, when we entered this effort we fundamentally turned the corner of this depression. While our recovery may be slower than some expect, nothing can prevent the prosperity of a country where the people have enlightenment, where they wish to work, wish to produce, and wish to do right by their neighbors.

We are not a nation of machines and houses, factories, and railways; we are a nation of men, women, and children. Our industrial system and our commerce are simply implements for their comfort and happiness. When we deal with those great problems of business and economics we must be inspired by the knowledge that we are increasing and defending the standards of living of all our people. Upon this soil grow those moral and intellectual forces that make our nation great.

INTER-RACIAL CO-OPERATION IN THE SOUTH

By JOHN WHITE, Jr.

IN THESE DAYS, when scarcely a week passes that one does not read of mob violence from the new Ku Klux Klan, so called, in which the victim often is a negro, when one reads from time to time of lynchings at the hands of unorganized mobs, in which the victim nearly always is a negro, and when one still ponders upon the terrible revelations that followed investigation of the peonage farm in Georgia, the question often is asked, Where is the intelligence and character of the South?

Well-informed men and women in other parts of this country, thinking back to the days when Southern statesmen molded the affairs of the nation, or recalling the truly marvelous progress made under incalculable handicaps in commercial and industrial fields in later days, with marked stimulation of educational endeavor, wonder how it can be—that is, those not obsessed with hatred of the South do—that in a land producing such capacities there could be and are such dread occurrences.

This article is to be no apology for the South. Rather, it is to be an attempt—it must be an inadequate attempt—to picture the problem of the South as it has developed in the last generation and as it has been grappled with.

First, if you please, remember that the existence, side by side, in great numbers of two widely different races is an anomaly in our modern civilization. Merely to state that is to state, for all thoughtful men, a social problem of vast dimensions. Next, remember that one of these races is but a century or two from a barbarism that reaches back into the dimmest recesses of time, and that it is still only a little more than a half century